UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Joint Boards on Security Constrained Economic Dispatch **Docket No. AD05-13-000**

November 13, 2005 Western Joint Board Meeting
Comments of Doug Larson,
Vice President, Regulation, PacifiCorp

Introduction

Good afternoon, I'm Doug Larson. I would like to start by thanking the Commission for providing PacifiCorp the opportunity to present our perspective on the benefits, issues and obstacles associated with security-constrained economic dispatch in the western market region. For those here who are unfamiliar with PacifiCorp, we provide electric service to approximately 1.6 million retail customers located in parts of California, Idaho, Oregon, Utah, Washington and Wyoming.

As a vertically-integrated utility, our retail service is regulated by the utility commissions of the six states that we serve. These commissions act to ensure that our retail customers receive reliable and reasonably priced electricity, consistent with state integrated resource requirements. Nationally, PacifiCorp believes that, given the diversity of utility structures across the geographic regions, issues involving the dispatch of generation resources by utilities are more appropriately addressed by state regulators and not the federal government. But while a federally-mandated change to state-regulated dispatch procedures would be unwarranted — as we and others have told DOE —PacifiCorp also believes it would be equally irresponsible to ignore opportunities to improve current practices across our region.

To put our position in proper context, I'd like to briefly explain our current dispatch procedure and how we view economic dispatch generally, including factors we believe must be considered when exploring the efficacy of greater non-utility generator dispatch. Finally, I'll close with suggestions for improving economic dispatch in our region.

PacifiCorp's Economic Dispatch Procedure

PacifiCorp currently economically dispatches its diverse system portfolio (both owned generation and generation under contract) of coal-fired, natural gas-fired, hydro, wind and contracted resources at the lowest available cost for our customers — subject to constraints such as control area boundaries, transmission limitations, reliability concerns, fuel constraints and certain business procedures, such as credit agreements and risk on physical delivery.

PacifiCorp's operational practices are consistent with the procedures required by federal and state tariffs and rules, as well as our interpretation of the new Energy Policy Act's definition of "economic dispatch," which we believe could be improved as I'll describe in

a moment. PacifiCorp dispatches generation in our two control areas utilizing a "resource stack" compiled and prioritized based on the available cost data associated with all dispatchable resources. Once the stack is compiled, resources under PacifiCorp's control are dispatched in merit order based on the costs in the resource stack, regardless of ownership. Thus, our decision process is premised on our generation dispatch function having the necessary access to price information for and real-time control over available resources. PacifiCorp constantly reviews and, as appropriate, modifies opportunity cost determinations. For hydro generation in particular this is a complex determination based on highly dynamic factors.

Economic Dispatch Defined

As the term is used in policy discussions, PacifiCorp believes "economic dispatch" must be understood to mean the real-time operation of generation facilities to produce energy at the lowest cost to reliably serve customers, recognizing any operational limits of generation and transmission facilities and other non-physical constraints, including credit concerns, environmental considerations and fuel or non-power constraints — such as the competing uses of water on the operation of hydro facilities. Also, it must be understood that dispatch of all energy-constrained generation — including hydro with discretionary storage capability — must be based on a determination of opportunity cost. Otherwise, such resources won't be available to generate power at times of maximum value, and hydro generation may be dispatched in contravention of non-power constraints. This concern is especially strong in the Pacific Northwest, where there is a significant amount of hydro generation.

Economic Dispatch Considerations

As to the larger policy question of the implications for retail customers from greater dispatch and use of non-utility generation, PacifiCorp believes numerous factors must be considered, including location, transmission limitations, reliability concerns and certain business procedures, such as credit agreements and risk on physical delivery. These risks, when absorbed by the operating utility, could increase overall operational costs. Consequently, numerous components must necessarily be considered in a cost analysis.

With respect only to the effect on grid reliability, to the extent that generation that might not otherwise be available is made available for economic dispatch, reliability would be enhanced. Of course, economic dispatch must be facilitated subject to the constraints of reliability criteria, both standards that exist today and requirements that will be established by the Electric Reliability Organization to be created pursuant to the new Energy Policy Act. Economic dispatch should always be secondary to reliability dispatch.

Economic Dispatch Optimized

PacifiCorp believes that economic dispatch will provide the greatest benefits to customers when the process is transparent to all market participants and resources are

dispatched on a more regional basis instead of on a utility-by-utility basis. This is one reason why PacifiCorp and several other utilities in our region have proposed creating Grid West. Establishing an independent operator of a consolidated control area, with a security-constrained economic dispatch, as we envision under Grid West, would expand dispatch opportunities for all participating generation in the Pacific Northwest and Intermountain West, including non-utility generation.

That said, even in non-ISO/RTO regions, economic dispatch could well be enhanced without impairing short-term reliability if non-utility generators entered into a contractual commitment to provide energy to a utility for a specified period of time consistent with the utility's unit commitment process and protocols. But it would be inappropriate in our view to put a state-regulated utility in any position where it is required to purchase from a non-utility generator if that generator has any ability to make an unconstrained, unilateral decision whether to provide energy to the utility or, alternatively, to participate in other markets that may provide a better price for their energy at that point in time. Further, given that the primary obligation of a utility like PacifiCorp is to provide reliable service to native load customers, a non-utility generator must recognize that the trade-off for being selected to be economically dispatched by the utility to meet the needs of those native load customers is the non-utility generator's willingness to potentially be subjected to contractual non-performance penalties for failure to deliver when dispatched by the utility. To be fair to all stakeholders and yet still be effective, any regulations that would be developed to foster greater inclusion of non-utility generation in state-regulated utilities' economic dispatch process must be balanced to satisfy the above concerns.

Conclusion

As this Joint Board contemplates possible recommendations for the Commission's final report to Congress, we would hope that you proceed in a manner that avoids undermining the ability of jurisdictional state commissions to effectively oversee utility generation dispatch decisions. Thank you for the chance to contribute our perspective. I'd be happy to answer any questions that you may have.